

Agricultural Focus

DRIVING LIFELONG PROSPERITY

Summer 2022

SPOTLIGHT ON A CHANGING CLIMATE



**SIGN UP TO
RECEIVE OUR
BUSINESS UPDATES**

Hazlewoods LLP and Hazlewoods Financial Planning LLP produce regular updates, using our expert commentary to provide you with information about our services, events and topical premium business news.

SIGN UP/UPDATE ONLINE: <http://bit.ly/hazlewoods>

INSIDE

- Inflation in the agricultural sector
- Meet our team: Hannah Reason
- The national minimum wage and accommodation offset
- Basic payment scheme lump sum exit scheme
- Trust registration service and property ownership
- Looking for pastures new?

HAZLEWOODS

DRIVING LIFELONG PROSPERITY

Inflation in the agricultural sector

All conventional farming businesses have been affected by increasing costs. As well as sector specific cost increases, such as fertiliser, the consumer prices index (CPI), rose by 7% in the 12 months to March 2022, the highest seen since March 1992, and is expected to hit 10% by the end of the year.

Businesses which have diversified into other areas, such as leisure and tourism have also been affected. With the general public's disposable income being squeezed, the true effect of this may not be seen until later in the year.

The sales price of cereals has seen an increase in value by nearly 50%. It is difficult to know whether this is enough (with the increased costs), to make an arable business profitable.

Fertiliser prices have rocketed from £283 per tonne back in March 2021, to £839 per tonne in March 2022. This is a 196% increase in just one year. Many farmers will have to make a difficult decision by weighing up the value of adding fertiliser against the potential increased yield.

Red diesel has nearly doubled in price over the year. In March 2021 it was at 59.95ppl, whereas in March 2022 it was 96.02ppl and could continue to rise. Will farmers weigh up the true cost of hauling silage and corn from a distance? Will farmers move away from conventional planting methods and use direct drilling?

In early May 2022 the Bank of England increased the base rate of interest to 1.00%. This has increased from 0.10% in less than five months. Those with variable interest loans will see their costs increase which will impact the business cash and overall profitability.

MONITORING YOUR CASHFLOW

With costs continuing to rise, many businesses are having to monitor their cashflow. To afford the increased price of inputs and overheads, many farmers are going to have to consider the timing of sales. They may decide to sell their stock earlier than normal, thereby realising profits earlier. This could affect the year end accounts since profits and possible tax liabilities would be brought forward, as stock is generally valued at the cost of production or at deemed cost which is 60-75% of the market value.



To aid cashflow, the Government announced they will bring forward the payment of 50% of the 2022 basic payment scheme due in December 2022, to July. The balance of the payment being paid as normal in December. Whilst this is welcome news to many farmers, and will help cover the payment of increased input costs, businesses need to be prepared for the reduced payment in December as this is generally when farming income is reduced.

PLANNING AHEAD

Farmers are used to fluctuations in income and profits; however, the vast increase in costs is not a regular occurrence. The timing of when inputs are purchased, and stock sold, will have a real bearing on the 2022 profits. For example:

→ *An arable farmer with a March year end pre-purchased their fertiliser for application on the 2022 harvest back in the early summer of 2021 costing £280 per tonne. In the 31 March 2022 accounts this cost will be carried forward in stock as part of the growing crop valuation. Due to the current prices, there is potential for the 2022 harvest turnover to be high, this is likely to create healthy profits in the year end to 31 March 2023. Any fertiliser purchased at the current inflated price for the 2023 harvest, will be carried forward in stock and have no bearing on the March 2023 profits. This could lead to an unexpected large tax charge in January 2024 when cash in the business might be stretched.*

Farmers averaging will help smooth the fluctuations in farming profits, but understanding your position and being able to make informed decisions will be critical to ensuring the business has cash when needed.

If you would like any help with cash flow monitoring or profit forecasts, please contact Jeremy Kirby or your usual Hazlewoods contact on 01242 680000 or jeremy.kirby@hazlewoods.co.uk



JEREMY KIRBY
01242 680000
jeremy.kirby@hazlewoods.co.uk

Meet our team

A Q&A with Senior Manager in the Farms and Estates team, Hannah Reason.

WHAT IS IT LIKE BEING AN ACCOUNTANT IN THE AGRICULTURAL SECTOR RIGHT NOW?

It is a challenging sector at the moment with a lot of uncertainty; there are all sorts of changes afoot from the phasing out of the basic payment scheme, to the exponential increases in the costs of inputs. In most industries, businesses can increase their prices to mitigate this but for large parts of the agricultural sector, farmers have a lot less influence on their prices which can be particularly frustrating.

The discussions we have on a day-to-day basis are so varied which makes it such an interesting sector to be part of. A conversation can start by looking back over the previous 12 months but move forwards to cover everything from succession planning, inheritance tax to diversification, no two days are ever the same.

With change comes opportunity, so there is a lot to be excited about within the sector. Equally with so much uncertainty, and so many unknowns, it can be difficult for a business to know the best way to move forwards.

WHAT DREW YOU TO WORKING IN THE AGRICULTURAL SECTOR?

I grew up on a beef and sheep farm in Somerset, and farming has always been close to my heart. I always knew this was an interest I wanted to pursue, be it practically, or within a professional capacity. Despite being an accountant, I still take a keen interest in the farm at home and like to get involved, whether it is TB testing or picking fat lambs on a Monday morning ready for market.

Having grown up on a family farm, I have experienced many of the challenges my clients face personally, which can really help my perspective. A farming business is particularly unique as family and business is often so interlinked. Any decisions may go much further than the initial conversation and have implications on the family dynamics, being able to appreciate this is so important.

TELL US SOMETHING THAT WE MIGHT NOT KNOW ABOUT YOU?

In my spare time, I show commercial cattle; I pick any good homebred calves from our suckler herd at home to show, and sometimes buy calves in the 'potential show calf' shows in the spring. Any calves I show, I take to county shows throughout the summer, finishing up with a 'fat stock' show at Christmas.

My preference of breed to show would be Limousin, although they have a reputation for being quite hot-headed, I love the challenge and would consider it a life goal to own a herd of pedigree Limousins.

When I am not showing, I am partial to a good pint of cider and am a firm believer that the best cider is made in Somerset, although I appreciate, I am biased!

WHY HAZLEWOODS?

I love working at Hazlewoods because the team has the advantages of a smaller firm, being able to provide a personal service whilst being able to draw on specialist expertise from other teams when required. The nature of the changes within the agricultural sector does mean that the ability to provide specialist advice is essential to provide a quality service.

My favourite bit about the job is going out to meet clients and chat about their business. Being a trusted adviser goes much further than preparing accounts and tax returns. No two farms are the same and with so much potential change brewing, developing relationships with clients so that they are comfortable enough to pick up the phone and talk about their business and future plans is something I feel really strongly about.

Having inside knowledge and understanding of the sector is really important in our team. My philosophy at work is: it's not necessarily knowing all of the answers that is important, it's knowing the right questions to ask.



THE NATIONAL MINIMUM WAGE AND ACCOMMODATION OFFSET

National minimum wage (NMW) is a statutory employment right that guarantees employees a wage not lower than that set by the government. The rates from April 2022 are:

- £9.50 for individuals aged 23+
- £9.18 for individuals aged 21-22
- £6.83 for individuals aged 18-20
- £4.81 for individuals aged 16-17 (and apprentices under 19)

The onus is on the employer to ensure that NMW requirements are satisfied, and they should be able to prove that the statute was met if challenged by HMRC.

The following pay elements contribute towards NMW:

1. gross salary
2. bonuses
3. commissions
4. incentive payments
5. piecework payments
6. accommodation offset

The first five above are straightforward and easily identifiable. The accommodation offset however, is more complicated and is applicable where an employer provides accommodation to an employee.

Accommodation benefits

An accommodation benefit may arise where an employer provides the provision of a living accommodation to an employee. This may be provided as part of an employment package or may require the employee to pay a rent.

This is the only benefit which can be taken into account when considering NMW.

It is important to note that whilst the accommodation provided to an employee may be an exempt benefit for tax purposes, it will still need to be considered when determining NMW.

The accommodation offset

The accommodation offset is a rate set by HMRC that represents the maximum value given towards an accommodation benefit for the purposes of calculating whether NMW has been paid.

The current accommodation offset rates are as follows:
Daily: £8.70 Weekly: £60.90

Any rental contribution made by an employee above the accommodation offset rate is treated as a deduction from wages, reducing the total pay reflected when determining whether the NMW has been met. Any contribution up to the amount of the accommodation offset is not considered for these purposes.

Any additional expenses an employee is obligated to pay to the employer in respect of the accommodation, such as furniture, rates, and utilities, should also be considered when calculating the total accommodation charge.

If an employee is provided free accommodation, employers can add an amount up to the accommodation offset onto the respective employee's total pay when calculating wage for the purposes of NMW.

Failure to meet NMW

Sufficient records must be retained for a minimum of six years from the end of the applicable pay reference period to evidence employees have received the NMW applicable.

If HMRC determine that an employer has not paid NMW, the business may be issued with a notice of underpayment. This will require the employer to settle salary arrears. In addition to this, a hefty penalty may be levied against the employer. The employer may also be publicly 'named and shamed' online by HMRC.



VICTORIA THOMAS
01242 680000
victoria.thomas@hazlewoods.co.uk



BASIC PAYMENT SCHEME LUMP SUM EXIT SCHEME

With the phasing out of the basic payment scheme (BPS) and multiple pressures facing farmers in the current climate, some farming businesses may be considering a change of direction or ceasing.

Rather than waiting until the BPS scheme is phased out in full in 2027, the RPA will provide a lump sum payment for an earlier exit. The lump sum is set at an average of the 2019 to 2021 BPS receipts, multiplied by 2.35, with a cap of £100,000. A forecast payment can be requested from the RPA.

ELIGIBILITY

Businesses will be eligible if BPS payments were claimed in the 2018 scheme year or earlier. Eligibility also includes business that have inherited agricultural land in England, or succeeded to an Agricultural Holdings Act 1986 tenancy, after 15 May 2018.

In order to qualify, all land, other than woodland creation schemes, non-agricultural land, and a permitted five hectares of agricultural land, must be transferred out. English BPS entitlements will need to be surrendered. Ongoing work as an agricultural contractor is permitted.

Landowners can transfer land by sale, gift or granting a minimum five year farm business tenancy.

Tenants can transfer land by surrendering, reassigning the tenancy or by succession on an Agricultural Holdings Act tenancy.

TIMING

The scheme is now open for applications and closes in September 2022. The scheme will not reopen next year so this is the only opportunity to apply (a very short window for such a significant decision).

Land must be transferred by 31 May 2024, and payments of the lump sum will take place between November 2022 and 31 May 2024.

It is recommended businesses apply for the 2022 and 2023 BPS in the event that a land transfer is delayed.

TAX TREATMENT

The government intend to treat the lump sum as capital in nature. For a partnership or sole trade, based on current 2022/23 tax rates, this would mean the first £12,300 per individual would be exempt (assuming no other gains in that year), and the balance taxable at 10% or 20%, dependent on other income. The lump sum could be taxable at 10% if business asset disposal relief applies. A company will suffer corporation tax in 2022/23 at 19% on the income.

PARTNERSHIPS AND COMPANIES

If only some members of a company or partnership wish to leave the business, as long as their combined interest is 50% or more, then the land transfer can take place to the remaining parties with the business still being eligible for the lump sum exit scheme.

IMPACT

The uptake is not expected to be substantial for this scheme. The lump sum is not a higher payment than would be received over time if farming continues. It is an early payment to allow a more managed exit from the industry with a capital sum to ease the transition. For businesses who are planning to exit anyway, perhaps due to lack of succession or a tenancy coming to an end, it could be a welcome bonus.



SUE BIRCH
01242 680000
sue.birch@hazlewoods.co.uk

TRUST REGISTRATION SERVICE AND PROPERTY OWNERSHIP

All trusts are now required to register under the trust registration service (TRS) unless they fall within a specific exemption. The exclusions are relatively limited, so most UK trusts and some non-UK trusts will now need to be registered with HMRC by 1 September 2022.

One area where people could be caught out is in relation to property as in many cases it may be overlooked that there is a trust. Property owned jointly by two or more people is regarded as a trust and needs to be registered unless it falls within an exemption.

One of the exemptions from the need to register is for co-owned land and property trusts, but this exemption only applies where the trustees, the legal owners, and beneficiaries of the property are the same people. The legal owners will typically be the name(s) on the title deeds at the land registry, whereas the beneficial owner is the person entitled to any income or proceeds of sale.

For example, a rental property is legally owned by just one spouse and a declaration of trust is in place to transfer some or all of the beneficial interest to the other spouse (such that the income is taxed on the spouse with the lower income). The legal and beneficial owners would not be the same and the trust would need to be registered.

A similar position may arise for partnerships, with the land legally held by one partner for the benefit of some or all the other partners.

A further complication comes with trusts created on death. If the farmhouse and land were held as tenants in common or solely by the deceased spouse, with the will stating that the surviving spouse has a life interest in the property but after his/her death it will pass to their child, the trustees and beneficiaries may not be the same people. If the only asset of the estate was the farm, this could effectively result in the registration of two trusts (the will trust and the property trust) for the same asset!

Other instances where an exemption from registration of property trusts may apply include:

- Property held on behalf of minor children – by law under 18s cannot hold legal title to land. This exemption only applies where the property is owned by two or more persons over the age of 18 for the benefit of themselves and one or more persons under 18.
- Property owned by more than four people – this is the maximum number of people that can be listed on the Land Registry. In cases where there are more beneficial owners an exemption would apply, provided four legal owners are registered at the Land Registry.

The rules are complex and the guidance is constantly being updated, so please do get in touch if you are unsure or have a trust that you think may need to be registered.



SHIRLEY ROBERTS
01242 680000
shirley.roberts@hazlewoods.co.uk



LOOKING FOR PASTURES NEW?

Do you know someone who would like to join our specialist Farms and Estates team providing accountancy, business and tax advice? We are looking for established professionals and trainees to join our growing team.

If you know someone who has a passion for farming, horses or the wider rural sector and are wanting to kickstart their career, or perhaps they are already a specialist in their field and fancy a new challenge, then ask them to get in touch with our Farms and Estates team below.



MEET THE TEAM



NICK DEE
nick.dee@hazlewoods.co.uk



NICHOLAS SMAIL
nicholas.smail@hazlewoods.co.uk



LUCIE HAMMOND
lucie.hammond@hazlewoods.co.uk



SHIRLEY ROBERTS
shirley.roberts@hazlewoods.co.uk



SUE BIRCH
sue.birch@hazlewoods.co.uk



HANNAH REASON
hannah.reason@hazlewoods.co.uk



JEREMY KIRBY
jeremy.kirby@hazlewoods.co.uk



VICTORIA THOMAS
victoria.thomas@hazlewoods.co.uk



**SIGN UP TO
RECEIVE OUR
BUSINESS UPDATES**

Hazlewoods LLP and Hazlewoods Financial Planning LLP produce regular updates, using our expert commentary to provide you with information about our services, events and topical premium business news.

SIGN UP/UPDATE ONLINE: <http://bit.ly/hazlewoods>

Staverton Court, Staverton, Cheltenham, GL51 0UX
Tel. 01242 680000

www.hazlewoods.co.uk / @HazlewoodsAgri

HAZLEWOODS
DRIVING LIFELONG PROSPERITY

This newsletter has been prepared as a guide to topics of current financial business interests. We strongly recommend you take professional advice before making decisions on matters discussed here. No responsibility for any loss to any person acting as a result of the material can be accepted by us. Hazlewoods LLP is a Limited Liability Partnership registered in England and Wales with number OC311817. Registered office: Staverton Court, Staverton, Cheltenham, Glos, GL51 0UX. A list of LLP partners is available for inspection at each office. Hazlewoods LLP is registered to carry on audit work in the UK and regulated for a range of investment business activities by the Institute of Chartered Accountants in England & Wales.



WE ARE AN INDEPENDENT MEMBER OF
**THE GLOBAL ADVISORY
AND ACCOUNTING NETWORK**